

TESTIMONY OF JACQUELINE R. CHERRY**FOR****THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA****DOCKET NO. 2003-1-E****IN RE: CAROLINA POWER & LIGHT COMPANY**

Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A. My name is Jacqueline R. Cherry. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Audit Department, as an auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a B. S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. I was employed by this Commission in February 1979, and have participated in cases involving gas, electric, telephone, water and wastewater utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth, in summary form, the Staff's findings, and recommendations resulting from our review of the Company's fuel adjustment clause operation for the period January 2002 through March

2003. These findings and recommendations are set forth in detail in the Staff's report.

Q. WHAT WAS THE SCOPE OF YOUR AUDIT?

A. The Audit Department Staff traced the information as filed in the Company's required monthly filings, to the Company's books and records. The current examination covered the period January 2002 through December 2002. The purpose of the audit was to determine if Carolina Power & Light Company had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.

Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE SCOPE OF THE AUDIT?

A. The examination consisted of the following:

1. Analysis of Account # 151 – Fuel Stock
2. Sample of Receipts to the Fuel Stock Account – Account # 151
3. Verification of Charges to Nuclear Fuel Expense, Account # 518
4. An Analysis of Purchased Power & Interchange (Net)
5. Verification of KWH Sales
6. A Comparison of Coal Costs
7. Recomputation of Fuel Costs Adjustment Factor and Verification of Deferred Fuel Costs
8. Recomputation of True-up for the (Over)Under-Recovered Fuel Costs
9. Analysis of Spot Coal Purchasing Procedures

Q. MRS. CHERRY, WOULD YOU PLEASE ELABORATE ON THE SCOPE OF YOUR EXAMINATION?

A. Staff's analysis of the Fuel Stock Account consisted of tracing receipts and issues from the Fuel Management System by month to the General Ledger. Staff's sample of receipts to the Fuel Stock Account consisted of randomly

1 selecting transactions, tracing each of these transactions to a waybill and a
2 purchase order for documentation purposes, and recalculating the
3 transactions to insure mathematical correctness. Staff verified nuclear fuel
4 expense amounts to the Company's General Ledger. The expenses were
5 also verified to the monthly fuel reports filed by the Company with this
6 Commission. Staff performed an examination of the Company's purchased
7 power and interchange amount used in the Fuel Adjustment Clause for the
8 period January 2002 through December 2002. Staff obtained the details of
9 purchases and sales made by Carolina Power & Light Company to and from
10 other electric utilities and verified the amounts that are being used in
11 computing total fuel cost for each month. Furthermore, PSC Order No. 90-
12 961, Docket No. 90-4-E, dated October 18, 1990 directed Staff to examine
13 the Company's non-firm, off-system sales. Accordingly, Staff traced the
14 sales and purchases transactions for January 2002 through December 2002
15 to the Company's monthly sales and purchases reports and invoices. Staff
16 recomputed the sales and purchases. Staff's review of KWH sales included
17 verification of total system sales as filed in the monthly factor computation.
18 Staff prepared exhibits from Carolina Power & Light Company's books and
19 records reflecting coal costs during the review period. Specifically, these
20 exhibits are as follows:

21 Exhibit A – Coal Cost Statistics (and Weighted Average of Coal Received)

22 Exhibit B – Received Coal – Cost Per Ton Per Plant

23 Exhibit C – Received Coal – Cost Per Ton Comparison

24 With reference to Exhibit A, Coal Cost Statistics, Staff has reflected a
25 detailed analysis of spot and contract coal for the twelve – month period
26 January 2002 through December 2002. Exhibit A provides detail of tons
27 received, cost per ton received, total received costs, percentage of tons
28 received and cost per MBTU. Also, in Exhibit A, the Weighted Average of
29 Coal Received is reflected for the twelve-month period. In Exhibits B and C,

1 Staff reflects a comparison of coal costs on a per ton basis. Exhibit B is a
2 comparison between Carolina Power & Light's plants, and Exhibit C is a
3 comparison between companies.

4 Staff analyzed the cumulative under-recovery of fuel costs that the Company
5 had incurred for the period January 2002 through December 2002, totaling
6 \$ 7,393,266. Staff added the projected under-recovery of \$ 1,492,363 for the
7 month of January 2003, the projected over-recovery of \$ 1,056,961 for the
8 month of February 2003, and the projected over-recovery of \$ 1,028,730 for
9 the month of March 2003 to arrive at a cumulative under-recovery of
10 \$ 6,799,938 as of March 2003. The Company's cumulative under-recovery,
11 per its testimony in Docket No. 2003-1-E, as of December 2002 totals
12 \$ 7,472,289 and as of March 2003 the cumulative under-recovery totals
13 \$ 6,878,961. Staff's Purchased Power figures for January 2002 through April
14 2002, June 2002, and October 2002 through December 2002 and the
15 resultant (over)/under-recovery monthly amounts for February 2002, March
16 2002, April 2002 and October 2002 differ from the Company's figures.
17 Staff's figures reflect calculation adjustments made to Purchased Power
18 Costs for January 2002 through December 2002 (per Staff's report), after
19 Staff reviewed the Company's Purchased Power invoices and reports. As a
20 result, on a total system basis, the difference between the Company's and
21 the Staff's Purchased Power Costs for the review period totals \$ 613,703.
22 Also, as a result, on a S.C. jurisdictional basis, the difference between the
23 Company's and the Staff's cumulative under-recovery balances as of actual
24 December 2002 and as of estimated March 2003 is \$ 79,023.

25 As stated in Carolina Power & Light's S.C. Retail Adjustment for Fuel Costs
26 Rider, fuel costs will be included in base rates to the extent determined
27 reasonable and proper by the Commission. Accordingly, the Commission
28 should consider the under-recovery of \$ 6,799,938 along with the anticipated
29 fuel costs for the period April 1, 2003 through March 31, 2004, for the

1 purpose of determining the base costs of fuel in base rates effective April 1,
2 2003. The \$ 6,799,938 under-recovery figure was provided to the
3 Commission's Utilities Department. Refer to Exhibit G, South Carolina Fuel
4 Costs Computation, for details of the under-recovery computation.

5 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT**
6 **DEPARTMENT'S REVIEW?**

7 **A.** Based on the Audit Staff's examination of Carolina Power & Light Company's
8 books and records, a comparison of fuel costs among utilities, and the
9 utilization of the fuel costs recovery mechanisms as directed by this
10 Commission, the Audit Department is of the opinion that the Company has
11 complied with the directives (per the Fuel Adjustment Clause) of the
12 Commission.

13 **Q. MRS. CHERRY, WOULD YOU IDENTIFY THE REMAINING EXHIBITS**
14 **CONTAINED IN YOUR REPORT THAT HAVE NOT BEEN IDENTIFIED?**

15 **A.** The exhibits are as follows:

16 Exhibit D: Coal Fuel Stocks -- Number of Days of Supply (All Plants)

17 Exhibit E: Total Burned Costs -- (Fossil and Nuclear)

18 Exhibit F: Cost of Fuel

19 Exhibit G: S.C. Fuel Costs Computation

20 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

21 **A.** Yes, it does.
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